# MINUTES OF THE JUNE 10, 2009, FINANCE COMMITTEE MEETING

The Finance Committee ("the Committee") of the Smithsonian Board of Regents met on Wednesday, June 10, 2009, at 2:00 p.m. at the Smithsonian Institution in Washington, D.C. Participating were Committee Chair Roger Sant, member David Silfen*, and ex officio member Patricia Stonesifer. Assistant to Senator Cochran T.A. Hawks* and prospective Committee member David Rubenstein* also participated. Staff in attendance were Secretary Wayne Clough; Treasurer Sudeep Anand; Executive Assistant to the Secretary Patricia Bartlett; Chief Investment Officer Amy Chen*; Director of the Office of Planning, Management and Budget Bruce Dauer; Assistant General Counsel Farleigh Earhart; Chief of Staff to the Board of Regents John K. Lapiana; General Counsel Judith Leonard; Chief Financial Officer Alice Maroni; Under Secretary for Finance and Administration Alison McNally; President of Smithsonian Enterprises Tom Ott; and Director of Government Relations Nell Payne. Also in attendance was Budget Analyst Amy Crochiere, who recorded the minutes.

**Call to Order and Approval of Minutes**

Committee Chair Roger Sant called the meeting to order and greeted the members. Under Secretary for Finance and Administration McNally reported on the shooting of a guard at the Holocaust Memorial Museum, which had just occurred. All members expressed their sadness at the tragedy. It was also concluded that since the shooter had been wounded and taken into custody, further danger to the Smithsonian visitors was not a concern. Director of Government Relations Payne then discussed the House Appropriations Committee mark-up of the Institution's fiscal year 2010 Federal budget, after which the Committee approved the minutes of the March 23, 2009, Committee meeting.

**The Endowment Payout Policy and the Endowment Payout for Fiscal Year 2010**

The Chair reminded the Committee that the current Endowment payout policy was to pay out each year 5 percent of the average market value over the previous five years. In light of the global economic crisis and its effects on the stability of the Institution's financial investments, Chief Investment Officer Amy Chen presented several alternative payout models for the Committee's consideration, including models that would result in lower total payouts for fiscal year 2010. Committee members discussed the appropriateness, in the current economic environment, of adhering to the current model, which would result in an increase over last year in the per share payout; the necessity of maintaining the Endowment for the Institution's future use; the actions of the Institution's peer organizations with regard to their payout policies; the importance of sustaining the Endowment's principal to take advantage of a possible economic rebound; and the fact that the current payout model was intended to avoid overreactions to either up or down financial markets.

The Committee also considered the impact of a reduced payout on the Institution's Trust budget, due to its significant contributions to Trust revenue. In fiscal year 2008, the

** participated by teleconference*

Endowment payout represented 13 percent of the Institution's overall Trust revenue and 42 percent of the Institution's Central Trust budget. Other sources of income for the Trust budget include net gains from business activities and revenue from membership programs. President of Smithsonian Enterprises Ott reported that net gain from business activities in fiscal year 2010 was projected to be flat with fiscal year 2009 at $25 million. It was noted that the membership programs in fiscal year 2010 also were projected to be flat with fiscal year 2009. After vigorous discussion, the Committee decided to recommend freezing the fiscal year 2010 payout per share at the fiscal year 2009 level of $38.72 per share. The recommended payout was projected to result in a total payout of $47.6 million in fiscal year 2010, compared to $47.4 million in fiscal year 2009. The Committee did not approve a permanent change to the Institution's payout model, but agreed to revisit this decision in fiscal year 2011 when market conditions may be more stable.

The Committee unanimously approved the following resolution for consideration by the Board of Regents:

> **VOTED** that the Board of Regents approves a payout rate of $38.72 per share for all Endowment funds for fiscal year 2010.

### Update on the Smithsonian Institution's External Debt

The Committee was reminded that it reviews the status of the Institution's external debt each year. At the end of March 2009, the Institution had $111.4 million of tax-exempt debt outstanding. It was noted that the debt consisted of $33.9 million issued for the construction of the Discovery Center at the National Museum of Natural History and $77.5 million for the National Air and Space Museum's Udvar-Hazy Center. Treasurer Anand proposed that the Institution refinance the debt related to the Discovery Center because it was callable at par and current market conditions indicated that it could be replaced with cheaper debt. He explained that the original Discovery Center debt was financed by tax-exempt bonds issued through the District of Columbia and that obtaining approval to refinance from the District of Columbia could take up to six months. The Committee understood that the final structure of the debt would be determined by market conditions at the time the approval was obtained.

The Committee unanimously approved the following resolution for consideration by the Board of Regents:

> **VOTED** that the Board of Regents authorizes the Secretary to issue up to $40 million in tax-exempt bonds through the District of Columbia to refinance the existing debt used to fund the Discovery Center at the National Museum of Natural History provided that the cost of the new debt is less than that of the existing debt.

### Budget Priorities

The Committee deferred consideration of the Institution's budget priorities to their August 2009 meeting when the Committee will review the Institution's fiscal year 2011 Federal budget request.

## Best Business Practices and Organizational Study

Secretary Clough explained the necessity for the Institution to assess its organizational structure and if necessary restructure itself to implement the new initiatives in the Institution's strategic plan. Under Secretary for Finance and Administration McNally reported that the Institution was seeking a consulting firm to assess the best practices of peer organizations; develop recommendations for the Institution's organizational alignment and structure to enable it to achieve its strategic priorities; and benchmark, evaluate, and improve the Institution's business processes to achieve efficiencies and improve productivity. The consultant would begin work around mid-August 2009 and complete the study in phases by spring 2010. The estimated cost for this study was estimated to be $600,000 to $1 million. Committee members were supportive of this study and discussed creating an ad hoc advisory group to bring the necessary expertise to the Committee on this topic. Committee discussion ensued about ensuring that all improvements suggested by the consultant be funded through efficiencies; that the consultant not spend much time on benchmarking the Institution against similar organizations, but provide the Institution with best practices; and that the Institution fix inefficiencies as they are found, without waiting for the final report to be issued.

## Wrap Up

The Chair thanked the members of the Committee and staff for their active participation and adjourned the meeting to conduct an executive session at 3:45 p.m.